

**TOWN OF MONTGOMERY, LOUISIANA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JULY 31, 2003**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2-18-04



"Jay H. Sheffield"
<jay@hjhcpa.biz>
01/26/2004 05:39 PM

To "Legislative Auditor" <ereports@lla.state.la.us>
cc
bcc
Subject Town of Montgomery - 7/31/2003

We are reissuing this report based on additional information that has just come to our attention (i.e., capital project fund). If there are any problems or concerns, please let me know.

Thanks



Jay Town of Montgomery 2003 Audit.pdf

TOWN OF MONTGOMERY, LOUISIANA
TABLE OF CONTENTS
JULY 31, 2003

	<u>EXHIBIT</u>	<u>SCHEDULE</u>	<u>PAGE</u>
General Purpose Financial Statements	-	-	1
Independent Auditors' Report	-	-	2
Combined Statements - Overview	-	-	3
Combined Balance Sheet - All Fund Types and Account Groups	A	-	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types	B	-	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (GAAP Basis) and Actual - All Governmental Fund Types	C	-	6
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - Proprietary Fund Types	D	-	7
Combined Statements of Cash Flows - Proprietary Fund Types	E	-	8
Notes To The Financial Statements	-	-	9
Schedule of Per Diem Paid to the Members of the Town Council	-	1	19
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	-	-	20
Summary Schedule of Prior Audit Findings	-	2	21
Corrective Action Plan for Current Year Audit Findings	-	3	22

GENERAL PURPOSE FINANCIAL STATEMENTS

HINES, JACKSON & HINES, L.L.C.

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INDEPENDENT AUDITORS' REPORT

The Honorable Steve Gunn, Mayor
and Members of the Town Council
P.O. Box 99
Montgomery, Louisiana 71454

We have audited the accompanying general purpose financial statements of the Town of Montgomery, Louisiana, as of and for the year ended July 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the Town of Montgomery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Montgomery, Louisiana, as of July 31, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 20, 2003, on our consideration of the Town of Montgomery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Town of Montgomery, Louisiana, taken as a whole. The accompanying supplemental information schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements, taken as a whole.

Hines, Jackson & Hines

Natchitoches, Louisiana

October 20, 2003

COMBINED STATEMENTS - OVERVIEW

EXHIBIT A

**TOWN OF MONTGOMERY, LOUISIANA
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JULY 31, 2003**

	Governmental Fund Type		Proprietary Fund Type	Account Group	Total Memorandum Only
	General Fund	Capital Projects	Enterprise	General Fixed Assets	
ASSETS					
Cash and cash equivalents	\$ 18,060	\$ 0	\$ 131,084	\$ 0	\$ 149,144
Investments	0	0	67,237	0	67,237
Accounts Receivable	4,185	0	31,017	0	35,202
Prepaid Expenses	3,757	0	992	0	4,749
Restricted Assets					
Cash and cash equivalents	0	0	69,603	0	69,603
Investments	0	0	19,917	0	19,917
Property, plant and equipment, net	0	0	1,772,462	611,574	2,384,036
Total Assets	\$ 26,002	\$ 0	\$ 2,092,312	\$ 611,574	\$ 2,729,888
Liabilities and Fund Equity					
Liabilities					
Accounts payable	\$ 7,917	\$ 0	\$ 16,536	\$ 0	\$ 24,453
Accrued liabilities	2,621	0	2,130	0	4,751
Interest coupons payable	0	0	2,450	0	2,450
Customers' deposits	0	0	55,216	0	55,216
Revenue bonds payable	0	0	84,000	0	84,000
Total Liabilities	10,538	0	160,332	0	170,870
Fund equity					
Contributed capital	0	0	2,213,681	0	2,213,681
Investment in general fixed assets	0	0	0	611,574	611,574
Retained earnings					
Reserved for debt service	0	0	32,351	0	32,351
Unreserved	0	0	(314,052)	0	(314,052)
Fund balance					
Unreserved	15,464	0	0	0	15,464
Total Fund Equity	15,464	0	1,931,980	611,574	2,559,018
Total Liabilities and Fund Equity	\$ 26,002	\$ 0	\$ 2,092,312	\$ 611,574	\$ 2,729,888

The notes to the financial statements are an integral part of this statement.

EXHIBIT B

TOWN OF MONTGOMERY, LOUISIANA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JULY 31, 2003

	<u>General</u>	<u>Capital Projects</u>	<u>Total Memorandum Only</u>
Revenues			
Taxes	\$ 25,761	\$ 0	\$ 25,761
Intergovernmental	70,562	47,014	117,576
Licenses and fees	27,136	0	27,136
Fines and forfeitures	44,849	0	44,849
Interest	25	0	25
Other	8,471	0	8,471
Total Revenues	176,804	47,014	223,818
Expenditures			
General government	47,747	0	47,747
Public safety			
Police	84,737	0	84,737
Fire	24,543	6,524	31,067
Streets	11,162	0	11,162
Sanitation	2,501	0	2,501
Recreation	2,343	0	2,343
Capital outlay	56,871	40,490	97,361
Total Expenditures	229,904	47,014	276,918
Excess of Revenues Over/(Under) Expenditures	(53,100)	0	(53,100)
Other Financing Sources/(Uses)			
Operating transfers	42,794	0	42,794
Excess of Revenues and other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(10,306)	0	(10,306)
Fund Balances, Beginning of year	25,770	0	25,770
Fund Balances, End of year	\$ 15,464	\$ 0	\$ 15,464

The notes to the financial statements are an integral part of this statement.

EXHIBIT C

TOWN OF MONTGOMERY, LOUISIANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL - ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JULY 31, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance Fav./Unfav.)</u>
Revenues			
Taxes	\$ 27,000	\$ 25,761	\$ (1,239)
Intergovernmental	65,000	70,562	5,562
Licenses and fees	27,500	27,136	(364)
Fines and forfeitures	45,000	44,849	(151)
Interest	200	25	(175)
Other	<u>5,500</u>	<u>8,471</u>	<u>2,971</u>
Total Revenues	170,200	176,804	6,604
Expenditures			
General government	44,500	47,747	(3,247)
Public safety			
Police	83,000	84,737	(1,737)
Fire	17,400	24,543	(7,143)
Streets	9,000	11,162	(2,162)
Sanitation	2,500	2,501	(1)
Recreation	2,000	2,343	(343)
Capital Outlay	<u>63,500</u>	<u>56,871</u>	<u>6,629</u>
Total Expenditures	<u>221,900</u>	<u>229,904</u>	<u>(8,004)</u>
Excess of Revenues Over/(Under) Expenditures	(51,700)	(53,100)	(1,400)
Other Financing Sources/(Uses)			
Operating transfers	<u>51,700</u>	<u>42,794</u>	<u>(8,906)</u>
Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	<u>\$ 0</u>	<u>(10,306)</u>	<u>\$ (10,306)</u>
FUND BALANCES, Beginning of year		<u>25,770</u>	
FUND BALANCES, End of year		<u>\$ 15,464</u>	

The notes to the financial statements are an integral part of this statement.

EXHIBIT D

TOWN OF MONTGOMERY, LOUISIANA
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS - PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JULY 31, 2003

OPERATING REVENUES	
Charges for services	\$ 380,784
Taxes	8,869
Other	<u>13,378</u>
Total Operating Revenues	403,031
OPERATING EXPENSES	
Bad debt expense	2,206
Depreciation	123,470
Gas purchased	143,164
Insurance	13,812
Legal and professional	4,500
License and permits	1,466
Miscellaneous	761
Office supplies and expense	6,489
Operating supplies	38,496
Payroll taxes	5,137
Rentals	2,076
Repairs and maintenance	30,680
Salaries	67,146
Travel and training	2,260
Utilities	31,633
Workman's compensation	<u>1,862</u>
Total Operating Expenses	<u>475,158</u>
Operating Income/(Loss)	(72,127)
Nonoperating Revenues/(Expenses)	
Grants	14,359
Interest income	2,078
Interest expense	<u>(4,366)</u>
Total Nonoperating Revenues/(Expenses)	<u>12,071</u>
Income/(Loss) Before Contributions and Transfers	(60,056)
Capital Contributions	464,430
Transfers (out)	<u>(42,794)</u>
Net Income	361,580
(Increase)/Decrease in Contributed Capital	(464,430)
(Increase)/Decrease in Retained Earnings - Reserved for Debt Service	<u>(916)</u>
Net Change in Unreserved Retained Earnings for the year	(103,766)
Retained Earnings - Unreserved, Beginning of year	<u>(210,286)</u>
Retained Earnings - Unreserved, End of year	<u>\$ (314,052)</u>

The notes to the financial statements are an integral part of this statement.

EXHIBIT E

TOWN OF MONTGOMERY, LOUISIANA
COMBINED STATEMENTS OF CASH FLOWS - PROPRIETARY FUND TYPES
YEAR ENDED JULY 31, 2003

Cash Flows From Operating Activities	
Operating income/(loss)	\$ (72,127)
Adjustments to reconcile operating income/(loss) to net cash provided by operating activities	
Depreciation	123,470
Bad debt expense	2,206
Changes in operating assets and liabilities:	
(Increase)/ decrease in accounts receivable	(6,182)
(Increase)/ decrease in prepaid expenses	2,233
Increase /(decrease) in accounts payable	10,171
Increase /(decrease) in accrued liabilities	(307)
Increase /(decrease) in customer deposits	504
Net Cash Flows From Operating Activities	59,968
Cash Flows From Noncapital Financing Activities	
Operating transfers from /(to) other funds	(42,794)
Net Cash Flows From Noncapital Financing Activities	(42,794)
Cash Flows From Capital and Related Financing Activities	
Receipt of grants	14,359
Purchases of automobiles and equipment	(14,791)
Principal payment on revenue bonds	(8,000)
Interest paid on revenue bonds	(4,600)
Net Cash Flows From Capital and Related Financing Activities	(13,032)
Cash Flows From Investing Activities	
(Increase)/decrease in investments	40,812
Interest income	2,078
Net Cash Flows From Investing Activities	42,890
Net Increase/(Decrease) in Cash and Cash Equivalents	47,032
Cash and Cash Equivalents, Beginning of year	153,655
Cash and Cash Equivalents, End of year	<u>\$ 200,687</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF MONTGOMERY, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Montgomery, Louisiana, is incorporated under the provisions of a special home rule charter. The Town operates under a mayor - council form of government. The Town's major operations include public safety, fire protection, streets, sanitation, recreation and parks, utilities and general administrative services.

The accounting and reporting policies of the Town of Montgomery conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial principles. Such accounting and reporting procedures also conform to the requirements set forth in the Louisiana Governmental Audit Guide and to the industry audit guide, Audits of State and Local Governmental Units.

A. Reporting Entity

Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Oversight responsibility by the Town is determined on the basis of the following criteria:

1. Financial interdependency. When a separate agency produces a financial benefit for or imposes a financial burden on a unit of government, that agency is a part of the reporting entity. Manifestations of financial interdependency include responsibility for financial deficits, entitlements to surpluses, and guarantees of, or "moral responsibility" for debt.
2. Selection of governing authority. An authoritative appointment is one where the entity's chief elected official maintains a significant continuing relationship with the appointed officials with respect to carrying out important public functions.
3. Designation of management. When management is appointed by and held accountable to a governing authority that is included in the entity, the activity being managed falls within the entity.
4. Ability to significantly influence operations. This ability includes, but is not limited to, the authority to review and approve budgetary requests, adjustments, and amendments.
5. Accountability for fiscal matters. Fiscal authority normally includes the authority for final approval over budgetary appropriations, responsibility for funding deficits and operating deficiencies, disposal of surplus funds, control over the collection and disbursement of funds, and maintenance of title to assets.

There may be, however, factors other than oversight that are so significant that exclusion of a particular agency from a reporting entity's financial statements would be misleading. These factors include:

1. Scope of Public Service. Aspects to be considered include who the activity benefits and whether it is conducted within the entity's geographic boundaries and generally available to its citizens.
2. Special Financing Relationship. Such a relationship may have been created to benefit the entity by providing for the issuance of debt on behalf of the entity.

Based on the application of these criteria, the financial statements of the Town of Montgomery, LA, consist only of the funds and account groups of the Town, since the Town has no oversight responsibility for any other governmental entity.

TOWN OF MONTGOMERY, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JULY 31, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting

The accounts of the Town of Montgomery are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. The individual funds account for the government resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The various funds are grouped in this report into generic fund types and broad fund categories as follows:

Governmental Fund Types - Governmental funds account for all or most of the Town of Montgomery's general activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long-term obligations.

General Fund

The general fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. General tax revenues and other sources of revenue used to finance the fundamental operations of the Town are included in this fund. The fund is charged with all cost of operating the government for which a separate fund has not been established.

Capital Project Funds

Capital project funds are established to account for major capital expenditures not financed by enterprise funds, internal service funds or trust funds.

Proprietary Fund Types - Proprietary funds account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds differ from governmental funds in that their focus is on income measurement, which, together with the maintenance of equity, is an important financial indicator.

Enterprise Funds - The enterprise funds are used to account for operations a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or b) where the governing body has decided the periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town's enterprise funds are comprised of its water, gas and sewer operations.

Account Groups - An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net expendable available financial resources.

General fixed assets account group

This is not a fund but rather an account group that is used to account for general fixed assets acquired principally for general purposes and excludes fixed assets in the enterprise funds.

TOWN OF MONTGOMERY, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JULY 31, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

General long-term debt account group

This is not a fund but rather an account group that is used to account for the outstanding principal balances of general obligation bonds and other long-term debt not reported in the proprietary funds.

C. General Fixed Assets and Long-term Debt

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund is determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, and are recorded as expenditures in the governmental fund types when purchased. Public domain ("infrastructure") general fixed assets consisting of certain improvements, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are not capitalized. No depreciation has been provided on general fixed assets. All fixed assets are valued at cost.

Property, plant, and equipment acquired for proprietary funds is capitalized in the respective funds to which it applies.

The proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity is included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by the enterprise funds is charged as an expense against their operations. Accumulated depreciation is reported on the enterprise fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight line method.

Long-term liabilities expected to be financed from governmental fund types are accounted for in the General Long-Term Debt Account Group.

The two account groups are not "funds". They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

TOWN OF MONTGOMERY, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JULY 31, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Ad valorem taxes are recorded as revenue when levied because they are considered to be both measurable and available even though a portion of the taxes are collected in subsequent years.

Those revenues susceptible to accrual are ad valorem taxes, franchise taxes, interest revenue, intergovernmental revenues, and charges for services. Fines, permits, licenses, penalties and interest, and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash. Anticipated refunds of taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred except that principal and interest on general long-term debt is recognized when due. Purchase of various operating supplies are regarded as expenditures at the time purchased.

All proprietary funds are accounted for by using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Transfers between funds that are not expected to be repaid (or any other types, such as capital lease transactions, sales of fixed assets, debt extinguishments, long-term debt proceeds, et cetera) are accounted for as other financing sources or uses. These other financing sources or uses are recognized at the time the underlying events occur.

E. Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control. Annual operating budgets are adopted each fiscal year and amended as required. The Town follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The Clerk prepares a budget based on departmental requests, and submits to the Mayor and council no later than fifteen days prior to the beginning of each fiscal year.
2. The proposed budget is published and the public notified the budget is available for public inspection. A public hearing is called.
3. A public hearing is held on the proposed budget at least ten days after publication of the call for the hearing.
4. After the holding of the public hearing, the budget is adopted through passage of an appropriation ordinance or adoption resolution prior to the commencement of the fiscal year for which the budget is being adopted.
5. Budgetary amendments involving the transfer of funds from one department, program or function to another or involving increases in expenditures resulting from revenues exceeding amounts estimated require the approval of the Board of Aldermen.
6. All budgetary appropriations lapse at the end of each fiscal year.

The Town's procedures with respect to its budget are designed to meet the requirements of applicable Louisiana Revised Statutes. The Town prepares budgets for its general fund, debt service funds, and capital projects funds on a basis consistent with generally accepted accounting principles.

TOWN OF MONTGOMERY, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JULY 31, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Cash Equivalents

Consistent with GASB Statement 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting", the Town of Montgomery defines cash and cash equivalents as follows:

Cash - includes not only currency on hand but also demand deposits with banks or other financial institutions and other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty.

Cash equivalents - all short term, highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of interest rates. Generally, only investments which, at the day of purchase, have a maturity date no longer than three months qualify under this definition.

G. Investments

Investments are stated at lower of cost or market and consist of certificates of deposit.

H. Receivables

All receivables are reported at their gross value and, where applicable, are reduced by the estimated portion that is expected to be uncollectible.

I. Bad Debts

Uncollectible amounts due for ad valorem taxes and customers' utility receivables are recognized as bad debts through the establishment of an allowance account at the time information becomes available which would indicate the uncollectibility of the particular receivable.

J. Compensated Absences

Employees of the Town of Montgomery earn two weeks of vacation leave per year. Vacation leave is prorated for employees having less than a year of service. Vacation leave does not carryover or accumulate from one fiscal year to the next, and there are no vesting privileges. Therefore no liability for compensated absences has been recorded in the accompanying financial statements.

K. Restricted Assets

Enterprise funds, because of certain bond covenants, are required to establish and maintain prescribed amounts of resources (consisting of cash and temporary investments) that can be used only to service outstanding debt.

TOWN OF MONTGOMERY, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JULY 31, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distribution. Reserved retained earnings for proprietary funds represent the net assets that have been legally identified for specific purposes.

Contributed capital is recorded in the Enterprise Funds for capital grants restricted for the acquisition or construction of capital assets. Contributed capital is not amortized based on the depreciation recognized on that portion of the assets acquired or constructed from such resources.

M. Total Columns on Combined Statements - Overview

Total columns on the general purpose financial statements are captioned "(Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position, in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. *Interfund eliminations have not been made in the aggregation of this data.*

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH AND CASH EQUIVALENTS

Louisiana Revised Statutes authorize the Town to invest in United States bonds, treasury notes or certificates, or to deposit funds in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana. Deposits are classified as investments if their original maturities exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash equivalents. Investments are stated at cost.

At July 31, 2003, the Town of Montgomery has cash and cash equivalents totaling \$218,747 as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Total</u>
Petty cash	\$ 200	\$ 0	\$ 200	\$ 400
Demand deposits	16,787	0	93,167	109,954
Savings accounts	1,073	0	0	1,073
CD's - maturity 90 days or less	<u>0</u>	<u>0</u>	<u>107,320</u>	<u>107,320</u>
Total	<u>\$ 18,060</u>	<u>\$ 0</u>	<u>\$ 200,687</u>	<u>\$ 218,747</u>

TOWN OF MONTGOMERY, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JULY 31, 2003

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Under state law, these deposits must be secured by Federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the pledging bank in a custodial bank that is mutually acceptable to both parties. At July 31, 2003, the Town of Montgomery had \$324,363 in bank deposits. These deposits were secured from risk by \$226,526 of federal deposit insurance and \$269,124 (market value) of pledged securities held by the custodial banks in the name of the fiscal agent (GASB 3).

Even though the pledged securities are considered collateralized under the provisions of GASB Statement 3, Louisiana Revised Statutes require the custodial bank to advertise and sell the pledged securities within ten (10) days of being notified by the Town that the pledging bank has failed to pay deposited funds upon demand.

NOTE 3 INVESTMENTS

The Town of Montgomery had investments totaling \$87,154 as of July 31, 2003. These investments consist of \$87,154 in certificates of deposit.

NOTE 4 CHANGES IN FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 31, 2002	Additions	Deletions	Balance July 31, 2003
Land	\$ 12,000	\$ 0	\$ 0	\$ 12,000
Buildings and building improvements	122,373	0	1,989	120,384
Automobiles and equipment	429,562	56,871	7,243	479,190
Construction-in-progress	423,940	40,490	464,430	0
Total	\$ 987,875	\$ 97,361	\$ 473,662	\$ 611,574

A summary of proprietary fund type property, plant and equipment at July 31, 2003 follows:

	Straight Line Rate	Cost	Accumulated Depreciation	Net	Depreciation This Year
Land	-	\$ 26,500	\$ 0	\$ 26,500	\$ 0
Plant and distribution lines	7-50 yrs	3,084,220	1,388,141	1,696,079	108,206
Automobiles and equipment	5-15 yrs	134,583	84,700	49,883	15,264
Totals		\$ 3,245,303	\$ 1,472,841	\$ 1,772,462	\$ 123,470

	Cost	Accumulated Depreciation	Net
Changes during the year			
Balance, Beginning of year	\$ 2,766,082	\$ (1,349,371)	\$ 1,416,711
Additions			
Plant and distribution lines	464,430	0	464,430
Automobiles and equipment	14,791	0	14,791
Depreciation	0	(123,470)	(123,470)
Balance, End of year	\$ 3,245,303	\$ (1,472,841)	\$ 1,772,462

TOWN OF MONTGOMERY, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JULY 31, 2003

NOTE 5 LONG-TERM DEBT

The following is a summary of other long-term debt transactions of the Town of Montgomery for the year ended July 31, 2003:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Outstanding</u>
Sewer Revenue Bonds	5.0%	1/01/11	\$ <u>220,000</u>	\$ <u>84,000</u>

The annual requirements to amortize all debt outstanding as of July 31, 2003, including interest payments of \$19,900, are as follows:

<u>Year Ended</u> <u>July 31</u>	<u>Sewer Revenue</u> <u>Bonds</u>
2004	\$ 13,200
2005	12,750
2006	13,300
2007	12,800
2008	13,300
2009	12,750
2010	13,200
2011	<u>12,600</u>
Total	\$ <u>103,900</u>

NOTE 6 FUND EQUITY

Reservations of fund equity are created to either (1) satisfy legal covenants that require that a portion of the fund equity be segregated or (2) identify the portion of the fund equity that is not appropriable for future expenditures. Specific reservations of the fund equity accounts are summarized below.

Enterprise funds

Reserved for debt service - Reservations of retained earnings of the enterprise fund are created by increases in assets restricted for debt service. Changes in the reservation result from earnings on restricted assets, payment of maturing principal and interest, and other transfers to restricted accounts. Earnings on restricted assets are included in the net income of the enterprise fund. When reserved retained earnings are increased, there is an equal reduction to the portion of retained earnings that is unreserved.

NOTE 7 DEDICATION OF PROCEEDS AND FLOW OF FUNDS

Enterprise Funds

Sewer Fund - Under the terms of the bond indenture on outstanding Sewer revenue bonds dated November 1, 1971, all income and revenues (hereinafter referred to as revenue) of every nature, earned or derived from operation of the Sewer System, are pledged and dedicated to the retirement of said bonds, and are to be set aside into the following special funds:

TOWN OF MONTGOMERY, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JULY 31, 2003

NOTE 7 DEDICATION OF PROCEEDS AND FLOW OF FUNDS (CONTINUED)

Out of the revenue there shall be set aside from time to time into an "Operation and Maintenance Fund" amounts sufficient to provide for the payment of the reasonable and necessary expenses of operating and maintaining the system.

Each month, there will be set aside into a fund called the "Bond Sinking Fund" an amount constituting 1/12 of the next maturing installment of principal and 1/12 of the next maturing installment of interest on the outstanding bonds. Such transfers shall be fully sufficient to assure the prompt payment of principal and interest installments as they become due, and may be used only for such payments.

Each month, there will be set aside into a "Bond Reserve Fund" an amount equal to 5% of the monthly sinking fund payments required during the current fiscal year until there shall have been accumulated in the Reserve Account an amount of \$13,650, the maximum principal and interest requirements in any one maturity year. Such amounts may be used only for the payment of maturing bonds and interest coupons for which sufficient funds are not on deposit in the Bond and Interest Redemption Fund and as to which there would otherwise be default.

Funds will also be set aside into a "Contingency Fund" at the rate of \$540 each year. Money in this fund may be used for the making of extraordinary repairs or replacements to the system which are necessary to keep the system in operating condition and for which money is not available as a maintenance and operation expense. Money in this fund may also be used to pay principal or interest on the bonds falling due at any time there is not sufficient money for payment in the other bond funds.

All of the revenues received in any fiscal year and not required to be paid in such fiscal year into any of the above noted funds shall be regarded as surplus and may be used for any lawful corporate purpose.

As of July 31, 2003, the Sewer Fund's retained earnings were reserved for the purposes noted above as follows:

Bond Sinking Account	\$ 6,629
Bond Reserve Account	19,917
Bond Contingency Account	<u>5,805</u>
Total	<u>\$ 32,351</u>

NOTE 8 AD VALOREM TAXES

The Town of Montgomery levies taxes on real and business personal property located within its boundaries. The Grant Parish Tax Assessor assesses the property values and prepares the Town's property tax roll. The Town bills and collects its own property taxes.

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes levied in September or October are payable upon receipt of notice. All ad valorem tax revenues are recognized in compliance with NCGA Interpretation -3 and GASB Codification Section P70 (Revenue Recognition - Property Taxes) which states that such revenue is recorded when it becomes measurable and available. Available means due, or past due and receivable within the current period and collected no longer than 60 days after the close of the current period.

For the year ended July 31, 2003, taxes of 16.36 mills were levied on property with assessed valuations totaling \$1,336,402 and were dedicated as follows:

TOWN OF MONTGOMERY, LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JULY 31, 2003

NOTE 8 AD VALOREM TAXES (CONTINUED)

General purposes	9.65 mills
Sewer system maintenance fund	6.71 mills

Total taxes levied were \$21,865. At July 31, 2003, taxes receivable were \$0, net of estimated uncollectible taxes of \$0.

NOTE 9 RETIREMENT COMMITMENTS

All employees of the Town of Montgomery are covered by the Social Security System. Employees contribute 6.2 percent of their total salary to the System, while the Town contributes a like amount. For the year ended July 31, 2003, total contributions to the System were \$17,068, of which the Town contributed \$8,534 and employees contributed \$8,534. Total payroll for the year ended July 31, 2003 was \$137,639 and total payroll covered by the System was \$137,639. Any future deficit in this System will be financed by the United States Government. The Town has no further liability to the System for the year ended July 31, 2003.

NOTE 10 LEASE OBLIGATIONS

The Town of Montgomery was not obligated under any capital or operating lease commitments at July 31, 2003.

NOTE 11 LITIGATION

There was no outstanding litigation against the Town of Montgomery at July 31, 2003.

NOTE 12 RISK MANAGEMENT

The Town of Montgomery is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town.

NOTE 13 CLAIMS AND JUDGMENTS

The Town of Montgomery participates in federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Town may be required to reimburse the grantor government. The Town believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the Town.

NOTE 14 ENTERPRISE FUND DEFICIT

The enterprise fund reflects an accumulated deficit in the amount of \$314,052 in unreserved retained earnings at July 31, 2003. This deficit is the result of operating expenditures continuing to be greater than operating revenues. Combining contributed capital and reserved retained earnings with the deficit in unreserved retained earnings results in total fund equity of \$1,931,980.

SCHEDULE 1**TOWN OF MONTGOMERY, LOUISIANA**
SCHEDULE OF PER DIEM PAID TO THE MEMBERS OF THE TOWN COUNCIL
YEAR ENDED JULY 31, 2003

<u>Members</u>	<u>Number of Meetings Attended</u>	<u>Compensation</u>
Marion Harrison	9	\$ 455
Rufus Miller	7	360
Lillie Simmons	9	455
Clarence Walker	4	265
Betty Washington	21	1,115
Maurice Smith	6	265
Davis Silk	10	585
Patricia Gongre	10	530
Shane Bevill	9	605
Greg , Varnell	9	625
		<u>\$ 5,260</u>

Compensation Paid Board Members

The schedule of compensation paid to the members of the Town Council of the Town of Montgomery, Louisiana, is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Compensation of the Councilmen is included in the general administrative expenditures of the General Fund.

HINES, JACKSON & HINES, L.L.C.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Steve Gunn, Mayor
and Members of the Town Council
P.O. Box 99
Montgomery, Louisiana 71454

We have audited the financial statements of the Town of Montgomery, Louisiana, as of and for the year ended July 31, 2003, and have issued our report thereon dated October 20, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town of Montgomery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Montgomery's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Town of Montgomery and the Louisiana State Legislative Auditor and is not intended to be, and should not be, used by anyone other than the specified parties.

Hines, Jackson & Hines
Natchitoches, Louisiana
October 20, 2003

SCHEDULE 2

TOWN OF MONTGOMERY, LOUISIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JULY 31, 2003

<u>Ref. No.</u>	<u>Fiscal Year Finding Initially Occurred</u>	<u>Description of Finding</u>	<u>Corrective Action Taken (Yes, No, Partially)</u>	<u>Planned Corrective Action/Partial Corrective Action Taken</u>
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Nothing came to our attention that would require disclosure under Government Auditing Standards.

SCHEDULE 3

TOWN OF MONTGOMERY, LOUISIANA
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JULY 31, 2003

<u>Ref. No.</u>	<u>Description of Finding</u>	<u>Correct Action Planned</u>	<u>Name(s) of Contact Person(s)</u>	<u>Anticipated Completion Date</u>
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Nothing came to our attention that would require disclosure under Government Auditing Standards.